THE LEAD
https://theleadleft.com/the-state-of-private-credit-in-europe-fourth-of-a-series/

The State of Private Credit in Europe (Fourth of a Series)

THE LEAD | July 6, 2021

Calculating private credit volume in Europe is a bit dodgy. Even in the US, good numbers have only been available in the last couple years. We can however triangulate from other known metrics.

The par amount of all leveraged loans was €15 billion in 1998, per S&P/LCD. It grew to €20 billion in 2003, €140 billion before the GFC, shrank to €100 billion by 2015, and is now at a record €240 billion. Conservatively assuming one-third is held by non-banks, that puts it just under €100 billion.

That's consistent with Preqin data. As our *Chart of the Week* highlights, assets under management for European direct lending is almost $160 billion, including about $50 billion of dry powder.

By another measure of activity, Deloitte's Deal Tracker estimated the total number of deals closed by alternative lenders in the UK since 2012 as almost 1000, with 650 in France, and 300 in Germany.

One leading European private credit arranger is Lincoln International's Capital Advisory Group, with 30 transactions closed so far this year. To get more details on this momentum, we spoke with Lincoln managing directors, Aude Doyen, Xenia Sarri, and Dominik Spanier.

Aude, tell us about your experience in the space. "In 2011 when I joined Lincoln," she told us, "95% of the leveraged loan middle market was held by banks. Over the past decade, direct lending has overtaken that market. In the UK, that share is over 50%, though there's been a time lag. Hayfin (formerly known as Haymarket) in 2009 did the first unitranche I arranged; they were one of the very few market participants at the time along with Ares and Macquarie."

Her colleague, Ms. Sarri, weighed in. "Since 2016 the UK, Germany, and France – Europe's largest economies and most mature markets – have seen the most impact from non-bank direct lending, and not just for financial sponsors. It's broader than that.

"Other countries, by contrast, such as Ireland and the Nordics, remain mostly a bank market. Banks there are very supportive, with relatively high hold levels, say $70 million, while the UK banks are capped at $25-30 million. Italy, as an example, has certain regulatory considerations making it tough for funds to lend directly. They need to be fronted by a bank."

"Europe is not a uniform market," Ms. Doyen reminded us. "The middle market in Spain has less of a private equity focus, more family-owned businesses that go to local banks."

Mr. Spanier added: "The smaller but very active markets such as Switzerland, Benelux, and the Nordics are defended by local banks which can provide very competitive terms in local club deals. On larger deals, however, private lenders have a competitive advantage as they can respond faster and offer sole underwrites. There are more than 70 direct lending funds now in continental Europe compared to only a handful 10 years ago! Plus, there’s still a very active bank scene, so there’s plenty of liquidity in the market.”

Next week we continue our conversation with the Lincoln team, with a look at direct lending terms.